

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 848 - SB 816

February 26, 2009

SUMMARY OF BILL: Creates a sales tax exemption for the first \$100,000 of annual sales made by public and private K-12 schools, and any charitable entity whose primary function involves fundraising in support of public and private K-12 schools and churches.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact - \$4,090,600
Forgone State Revenue – Exceeds \$428,800

Decrease Local Revenue - \$1,728,200
Forgone Local Revenue – Exceeds \$153,100

Assumptions:

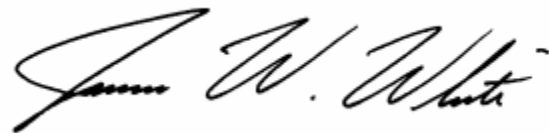
- According to the Internal Revenue Service, Exempt Organizations Business Master File, there are approximately 6,753 non-profit organizations organized for supporting schools or churches in the United States.
- Two percent of such organizations (135) are estimated to be located in Tennessee and operating on the behalf of Tennessee schools and churches exclusively.
- The average amount of taxable sales for each of these charitable organizations is estimated to be 60 percent of the maximum allowed (\$60,000).
- Taxable sales made by Tennessee charitable organizations for supporting schools or churches is estimated to be \$8,100,000 per year ($135 \times \$60,000 = \$8,100,000$).
- According to the FY08-09 Tennessee Fact Book, there are approximately 1,712 public K-12 schools and 414 private schools.
- The average amount of taxable sales for each school is estimated to be 25 percent of the maximum allowed (\$25,000).
- Taxable sales made by schools for fundraising is estimated to be \$53,150,000 per year $[(1,712 + 414) \times \$25,000 = \$53,150,000]$.

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- Total sales taxable under current law that would become exempt following passage of this bill are estimated to be \$61,250,000 per year ($\$8,100,000 + \$53,150,000 = \$61,250,000$).
- The state sales tax rate is currently seven percent.
- The decrease of state sales tax revenue is estimated to be \$4,287,500 per year ($\$61,250,000 \times 7.0\% = \$4,287,500$).
- Local government receives 4.5925 percent of state sales tax revenue as state-shared sales taxes.
- The decrease of state-shared taxes apportioned to local government is estimated to be \$196,900 per year ($\$4,287,500 \times 4.5925\% = \$196,903$).
- The net decrease to state revenue is estimated to be \$4,090,600 per year ($\$4,287,500 - \$196,900 = \$4,090,600$).
- The average local option sales tax rate is estimated to be 2.5 percent.
- The decrease to local option sales tax revenue is estimated to be \$1,531,300 per year ($\$61,250,000 \times 2.5\% = \$1,531,250$).
- The total decrease to local government revenue is estimated to be \$1,728,200 per year ($\$196,900 + \$1,531,300 = \$1,728,200$).
- This bill is expected to incentivize Tennessee schools and qualified charitable organizations to increase their fundraising efforts. As a result, taxable sales of such entities are expected to increase. Determining a precise growth rate for these taxable sales is difficult due to many unknown factors. However, such increase is reasonably estimated to be a minimum of 10 percent. The increase of taxable sales is estimated to exceed \$6,125,000 per year ($\$61,250,000 \times 10\% = \$6,125,000$).
- Forgone state revenue is estimated to exceed \$428,800 per year ($\$6,125,000 \times 7.0\% = \$428,750$).
- Forgone local government revenue is estimated to exceed \$153,100 per year ($\$6,125,000 \times 2.5\% = \$153,125$).

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc